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Ms Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No R-1381 – Proposed Amendments to Regulation D on Term Deposits

Dear Ms Johnson:

Citigroup Inc., the parent of Citibank, N.A. and other “eligible institutions” as defined in Federal Reserve Regulation D, is pleased to comment on the proposed amendments to Regulation D (12 C.F.R. Part 204) to authorize the establishment of interest-bearing term deposits for eligible institutions. The proposal was published in the Federal Register on December 31, 2009.

Citigroup supports the proposal to offer such deposits to eligible institutions, subject to our comments below. We agree that the proposed term deposits could be part of the Federal Reserve’s tool kit to drain reserves, but we believe that the market has not yet established the “real” amount of excess liquidity in the financial system. In our view, a series of auctions would help to establish the excess liquidity drain and indicate just how much the excess is. We have seen studies that suggest the “real excess” is in the range of \$ 400-700 billion.

In addition to our responses below to the specific questions posed in the proposal, we support the statement in footnote 1 to the Board’s proposal that the definition of “eligible institutions” is limited to the depository institutions eligible to receive interest on their reserve accounts in accordance with 12 U.S.C. § 461(b)(12), and does not include the Federal Home Loan Banks, Fannie Mae or Freddie Mac.

We disagree, however, with the Board’s proposal that the term deposits could not be eligible to cover daylight overdraft positions. We recommend that term deposits, which would be made eligible collateral for discount window advances, should also be made available for collateralizing daylight overdraft usage. While the Federal Reserve Bank

currently maintains two separate collateral accounts for pledging depository institutions - one to cover discount window advances (U102) and the other to cover daylight overdraft usage (P102, P103) for Payment System Risk (PSR) purposes, the same eligibility requirements and margins apply to both accounts and collateral could be moved between the two accounts provided enough notice is given to the Federal Reserve Bank.

In fact, we understand that, in preparation for the pending PSR policy changes related to partial debit cap collateralization, the Federal Reserve is planning to implement collateral process changes in the fourth quarter of 2010 or the first quarter of 2011 that will consolidate the pledging accounts used for discount window and PSR (daylight overdraft) purposes into one account. Accordingly, we believe that the term deposits should be available to cover the daylight overdraft positions.

1. Is it necessary to place any limitations on the maximum amount of term deposits that an institution may hold or on the maximum portion of a single offering that an institution may win at auction?

Citigroup believes that each auction should have a “defined amount of deposits available” depending on how much liquidity is to be drained in that auction. We suggest that, similar to the Term Auction Facility (TAF), auctions ranging from \$50-75 billion would be appropriate. We would recommend a limitation on the maximum amount of a single offering that an institution may win at auction – in the 5% - 10% range (similar to the TAF restrictions). This per-auction restriction effectively would limit the maximum total amount any individual institution can hold, although we would not oppose an overall cap of 10% of total term deposits to be held by any individual institution.

2. What maturity or maturities would eligible institutions recommend as appropriate for term deposits, and should more than one maturity be offered?

Citigroup recommends multiple auction maturities that would allow eligible institutions to manage both their liquidity expectations and interest rate exposures. Our suggested maturities for the shorter tenors would be 28-84 days (similar to TAF). For the longer dated auctions we suggest maturities of six months and one year. In our view, the auctions for shorter-dated maturities could be significantly larger (perhaps twice the size) of the auctions for the longer-dated maturities.

3. Are there basic terms and structures for term deposits other than those described in this notice that should be considered?

Citigroup suggests that the term deposits with the longer dated maturities could have either fixed or floating rates. The floating rates being fixed as a ‘spread’ against the rate paid on required reserve balances and on excess balances (known as the IOR - currently ¼ percent). In our view, this “spread” should be established at each auction. A potential issue with respect to the spread over IOR, would be banks’ expectations

of a divergence of the Fed Target Rate and the IOR. With respect to the longer term fixed term deposits, we do not believe that primary credit rate is necessarily appropriate as a maximum, although we think that the primary credit rate does seem appropriate as a maximum rate for the shorter tenors. Accordingly, we recommend a higher maximum rate, with the increase in the rate relative to the shorter tenors being consistent with the steepness of the yield curve. For example, if the maximum rate for the 28 day auction is the primary credit rate (50bp), the steepness of the LIBOR curve from 1 month to 1 year being approximately 65bp could imply the maximum rate for the 1year auction at 115 bp.

Citigroup also believes that multiple bids by an institution should be permitted (as with TAF auctions). We recommend two potential bids per eligible institution. Finally, we think that rates for the term deposits should be covered at the eligible institutions expectations of the higher of the interest on reserve rate or overnight cash rate, given the liquidity constraints.

Again, Citigroup appreciates the opportunity to comment on the Board's proposal. Please do not hesitate to contact the undersigned at (212) 559-2938, or Edward Handelman at (212) 559-2363 if you wish to discuss this with us.

Very truly yours,

A handwritten signature in black ink, appearing to read "Carl Howard", with a stylized flourish at the end.

Carl Howard
Deputy General Counsel